# CHAPTER 2

# KEY CONCEPTS OF SERVICE MANAGEMENT

# 2 Key concepts of service management

A shared understanding of the key concepts and terminology of ITIL by organizations and individuals is critical to the effective use of this guidance to address real-world service management challenges. To that end, this chapter explains some of the most important concepts of service management, including:

- the nature of value and value co-creation
- organizations, service providers, service consumers, and other stakeholders
- products and services
- service relationships
- value: outcomes, costs, and risks.

These concepts apply to all organizations and services, regardless of their nature and underpinning technology. But the first thing that must be outlined is the most fundamental question of all: What is 'service management'?

**Definition: Service management**

A set of specialized organizational capabilities for enabling value for customers in the form of services.

Developing the specialized organizational capabilities mentioned in the definition requires an understanding of:

- the nature of value
- the nature and scope of the stakeholders involved
- how value creation is enabled through services.

### The ITIL story: Axle's services

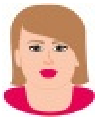
Su: *At Axle, our service is travel experience. We provide this service to our customers to create value both for them and for Axle. Service management helps us to realize this value.*

## The ITIL story: Axle's customers

Here are three of Axle Car Hire's frequent customers, whom you will meet as the story unfolds:

Ichika Is a university student on holiday with no fixed plans. She hopes to visit music festivals as part of her travel experience. Apart from that, her travel is flexible. She is tech-savvy and quickly adapts to new applications and solutions. She is interested in trying new and exciting digital services.

Faruq Is recently retired and typically holidays alone. He is thoughtful and enjoys learning about and adopting new technology. Faruq often makes his travel plans on the go, as his needs can change, based on personal or health considerations.



Amelia Is the facilities manager at an organic food distribution company called Food for Fuel. Their head office is in central London, but many Food for Fuel consumers are in regional areas. This means access by public transport is typically infrequent, unreliable, and expensive. Consequently, Food for Fuel provides its sales staff with vehicles to enable them to conveniently and reliably visit existing and potential customers.

# 2.1 Value and value co-creation

### Key message

The purpose of an organization is to create value for stakeholders.

The term 'value' is used regularly in service management, and it is a key focus of ITIL 4; it must therefore be clearly defined.

### Definition: Value

The perceived benefits, usefulness, and importance of something.

Inherent in this definition is the understanding that value is subject to the perception of the stakeholders, whether they be the customers or consumers of a service, or part of the service provider organization(s). Value can be subjective.

### 2.1.1 Value co-creation

There was a time when organizations self-identifying as ‘service providers’ saw their role as delivering value to their customers in much the same way that a package is delivered to a building by a delivery company. This view treated the relationship between the service provider and the service consumer as mono-directional and distant. The provider delivers the service and the consumer receives value; the consumer plays no role in the creation of value for themselves. This fails to take into consideration the highly complex and interdependent service relationships that exist in reality.

Increasingly, organizations recognize that value is co-created through an active collaboration between providers and consumers, as well as other organizations that are part of the relevant service relationships. Providers should no longer attempt to work in isolation to define what will be of value to their customers and users, but actively seek to establish mutually beneficial, interactive relationships with their consumers, empowering them to be creative collaborators in the service value chain. Stakeholders across the service value chain contribute to the definition of requirements, the design of service solutions and even to the service creation and/or provisioning itself (see section 4.5).

#### The ITIL story: Value

Marco: *We’re planning to release a generous new offering, giving an extra day of car hire with every booking.*

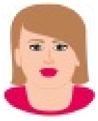
Henri: *However, we must remember that value means different things for different people. Axle has a broad range of customers, and each of them has their own requirements for car hire. We need to make sure that any changes to our services are actually providing some type of value to our customers.*

Ichika: *To me, ‘value’ means freedom of movement. I want my travel to be easy, hassle-free, and flexible. I opt in to mailing lists and subscriptions when it suits me. I take frequent short trips and rarely visit the same location twice. An extra day of car hire won’t always suit my plans.*

Faruq: *I don’t travel often, so I don’t have my own car. The value of a car-hire*

*service for me is the on-demand availability of a car that suits my needs. I spend less money on car hire each year than it would cost me to maintain and run my own car.*

*Value means it meets my budget. Being retired means I'm flexible, with very few commitments or deadlines. When I'm on holiday, I only plan a few days ahead. An extra day of car hire offers real value to me.*



Amelia: *The value of car hire for my organization, Food for Fuel, is two-fold. First, we need the ability to reach our customers. Second, we're keen to lower our costs and risks by hiring cars instead of running our own fleet.*

*As a regular customer who books car hire on behalf of my sales reps and staff, I value a consistent and reliable standard of service. Travel and car hire at Food for Fuel is pre-planned and typically only requires daily hire. There's not much value in an extra day of car hire for my organization.*

Henri: *We also have to think about how value is created for Axle. The most obvious value we receive when we hire out our cars is revenue. For our service consumers, value includes easy access to a vehicle when they need it, without the overall expense of car ownership. In both cases, we need a combination of the two for the value to be realized. In that way, we co-create value through our service relationships.*

Value will be explored in greater depth later in this chapter. Before that, however, it is important to outline the various stakeholders who are involved in value co-creation and the language used in ITIL to describe them.

## 2.2 Organizations, service providers, service consumers, and other stakeholders

In service management there are many different kinds of stakeholder, each of which must be understood in the context of the creation of value in the form of services. First, the term 'organization' needs to be defined.

Definition: Organization

A person or a group of people that has its own functions with responsibilities, authorities, and relationships to achieve its objectives.

Organizations vary in size and complexity, and in their relation to legal entities, from a single person or a team to a complex network of legal entities united by common objectives, relationships, and authorities.

As societies and economies evolve, the relationships between and within organizations become more complex. Each organization depends on others in its operation and development. Organizations may hold different roles, depending on the perspective under discussion. For example, an organization that coordinates adventure vacations can fill the role of a service provider to a travel agent when it sells a vacation, while simultaneously filling the role of service consumer when it purchases airport transfers to add to their vacation packages.

### 2.2.1 Service providers

**Key message**

When provisioning services, an organization takes on the role of the service provider. The provider can be external to the consumer's organization, or they can both be part of the same organization.

In the most traditional views of ITSM, the provider organization is seen as the IT department of a company, and the other departments or other functional units in the company are regarded as the consumers. This is, however, only one very simple provider-consumer model. A provider could be selling services on the open market to other businesses, to individual consumers, or it could be part of a service alliance, collaborating to provide services to consumer organizations. The key is that the organization in the provider role has a clear understanding of who its consumers are in a given situation and who the other stakeholders are in the associated service relationships.

**The ITIL story: Service providers**

Henri: *Axle Car Hire acts as a service provider. We provide cars for hire. At the same time, other organizations, such as mechanics and the companies that we buy our cars from, act as service providers for Axle.*

## 2.2.2 Service consumers

### Key message

When receiving services, an organization takes on the role of the service consumer.

Service consumer is a generic role that is used to simplify the definition and description of the structure of service relationships. In practice, there are more specific roles involved in service consumption, such as customers, users, and sponsors. These roles can be separate or combined.

### Definitions

- Customer A person who defines the requirements for a service and takes responsibility for the outcomes of service consumption.
- User A person who uses services.
- Sponsor A person who authorizes budget for service consumption.

For example, if a company wishes to purchase mobile phone services for its employees from a wireless carrier (the service provider), the various consumer roles may be distributed as follows:

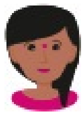
- The chief information officer (CIO) and key communications team members fill the role of customer when they analyse the mobile communications requirements of the company's employees, negotiate the contract with the wireless carrier and monitor the carrier's performance against the contracted requirements.
- The chief financial officer (CFO) fills the role of the sponsor when they review the proposed service arrangement and approve the cost of the contract as negotiated.
- The employees (including the CIO, CFO, and communications team members) fill the role of users when they order, receive, and use the mobile phone services as

per the agreed contract.

In another example, an individual private consumer of the same wireless carrier (a person using the mobile network) simultaneously acts as a user, customer, and sponsor.

### The ITIL story: Axle's service consumers

Su: *Our most obvious service consumers are the people and organizations who hire our cars, visit our offices, and use our website and booking app. For example, Ichika and Faruq are service consumers, and so is Food for Fuel. They are also our customers.*



Radhika: *Users are the people who make use of our services. Our car-hire users are the drivers and passengers in our vehicles.*

Marco: *Sponsors are the people who authorize budgets. For Axle Car Hire, our sponsors include Amelia from Food for Fuel, who approves the travel budget even if she doesn't travel herself.*

Henri: *Individual service consumers such as Ichika and Faruq approve their own budgets, define their requirements for car hire, and drive the cars. Therefore, Ichika and Faruq act as sponsors, customers, and users. Sometimes, though, they may share the trip with fellow drivers (friends or family members). In this case, their contracts will include other users.*

It is important to identify these roles in service relationships to ensure effective communication and stakeholder management. Each of these roles may have different, and sometimes even conflicting, expectations from services, and different definitions of value.

## 2.2.3 Other stakeholders

A key focus of service management, and of ITIL, is the way that organizations co-create value with their consumers through service relationships. Beyond the consumer and provider roles, there are usually many other stakeholders that are important to value creation. Examples include individual employees of the provider organization, partners and suppliers, investors and shareholders, government organizations such as regulators, and social groups. For the success, and even the continued existence of an organization, it is important that relationships with all key stakeholders are understood and managed. If stakeholders are unhappy with what the organization does or how it does it, the provider's relationships with its consumers can be in jeopardy.

Products and services create value for stakeholders in a number of ways. Some are quite direct such as the generation of revenue, while others are more indirect such as employee experience. Table 2.1 provides examples of value for several different types of stakeholder.

Detailed recommendations on the management of value for different stakeholders can be found in other ITIL 4 publications and supplementary materials.

Table 2.1 Examples of value for different types of stakeholder

| Stakeholder | Example of value for stakeholder |
|---|---|
| Service consumers | Benefits achieved; costs and risks optimized |
| Service provider | Funding from the consumer; business development; image improvement |
| Service provider employees | Financial and non-financial incentives; career and professional development; sense of purpose |
| Society and community | Employment; taxes; organizations' contribution to the development of the community |
| Charity organizations | Financial and non-financial contributions from other organizations |
| Shareholders | Financial benefits, such as dividends; sense of assurance and stability |

## 2.3 Products and services

The central component of service management is, of course, the service. The nature of services will now be considered, and an outline given of the relationship between a service and a product.

### 2.3.1 Configuring resources for value creation

**Key message**

The services that an organization provides are based on one or more of its products. Organizations own or have access to a variety of resources, including people, information and technology, value streams and processes, and partners and suppliers. Products are configurations of these resources, created by the organization, that will potentially be valuable for its customers.

Definitions

- Services A means of enabling value co-creation by facilitating outcomes that customers want to achieve, without the customer having to manage specific costs and risks.
- Product A configuration of an organization's resources designed to offer value for a consumer.

Each product that an organization offers is created with a number of target consumer groups in mind, and the products will be tailored to appeal to, and meet the needs of, these groups. A product is not exclusive to one consumer group, and can be used to address the needs of several different groups. For example, a software service can be offered as a 'lite' version, for individual users, or as a more comprehensive corporate version.

Products are typically complex and are not fully visible to the consumer. The portion of a product that the consumer actually sees does not always represent all of the components that comprise the product and support its delivery. Organizations define which product components their consumers see, and tailor them to suit their target consumer groups.

### 2.3.2 Service offerings

Key message

Service providers present their services to consumers in the form of service offerings, which describe one or more services based on one or more products.

### Definition: Service offering

A formal description of one or more services, designed to address the needs of a target consumer group. A service offering may include goods, access to resources, and service actions.

Service offerings may include:

- goods to be supplied to a consumer (for example, a mobile phone). Goods are supposed to be transferred from the provider to the consumer, with the consumer taking the responsibility for their future use
- access to resources granted or licensed to a consumer under agreed terms and conditions (for example, to the mobile network, or to the network storage). The resources remain under the provider's control and can be accessed by the consumer only during the agreed service consumption period
- service actions performed to address a consumer's needs (for example, user support). These actions are performed by the service provider according to the agreement with the consumer.

Examples of different types of service offering are shown in Table 2.2.

Services are offered to target consumer groups, and those groups may be either internal or external to the service provider organization. Different offerings can be created based on the same product, which allows it to be used in multiple ways to address the needs of different consumer groups. For example, a software service can be offered as a limited free version, or as a comprehensive paid-for version, based on one product of the service provider.

Table 2.2 Components of a service offering

| Component | Description | Examples |
|---|---|---|
| Goods | Supplied to the consumer<br>Ownership is transferred to the consumer<br>Consumer takes responsibility for future use | A mobile phone<br>A physical server |
| Access to resources | Ownership is not transferred to the consumer<br>Access is granted or licensed to the consumer under agreed terms and conditions<br>The consumer can only access the resources during the agreed consumption period and according to other agreed service terms | Access to the mobile network, or to network storage |
| Service actions | Performed by the service provider to address a consumer's needs<br>Performed according to an agreement with the consumer | User support<br>Replacement of a piece of equipment |

### The ITIL story: Axle's service offerings

Su: *Axle's service offerings include car hire and the various options we provide to address different travel needs. These offerings include discounted insurance, a loyalty programme, and complimentary travel products which include bottled water, tissues, badge holders for parking permits, and baby seats.*

*Our consumers are a diverse group and expect different travel experiences. For example, our corporate consumers don't usually need baby seats or weekend rates. At the same time, some individual customers aren't interested in free airport car collection if they're only travelling locally.*

*All our service offerings include access to our website and booking app.*

## 2.4 Service relationships

To create value, an organization must do more than simply provide a service. It must also cooperate with the consumers in service relationships.

### Key message

Service relationships are established between two or more organizations to co-create value. In a service relationship, organizations will take on the roles of service providers or service consumers. The two roles are not mutually exclusive, and organizations typically both provide and consume a number of services at any given time.

### 2.4.1 The service relationship model

When services are delivered by the provider, they create new resources for service consumers, or modify their existing ones. For example:

- a training service improves the skills of the consumer's employees
- a broadband service allows the consumer's computers to communicate
- a car-hire service enables the consumer's staff to visit clients
- a software development service creates a new application for the service

consumer.

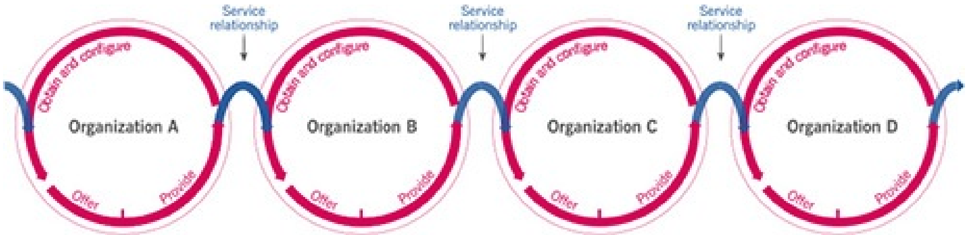



Figure 2.1 The service relationship model

The service consumer can use its new or modified resources to create its own products to address the needs of another target consumer group, thus becoming a service provider. These interactions are shown in Figure 2.1.

## Definitions

- Service relationship A cooperation between a service provider and service consumer. Service relationships include service provision, service consumption, and service relationship management.
- Service provision Activities performed by an organization to provide services. Service provision includes:
  - management of the provider's resources, configured to deliver the service
  - ensuring access to these resources for users
  - fulfilment of the agreed service actions
  - service level management and continual improvement.

  Service provision may also include the supplying of goods.
- Service consumption Activities performed by an organization to consume services. Service consumption includes:
  - management of the consumer's resources needed to use the service
  - service actions performed by users, including utilizing the provider's resources, and requesting service actions to be fulfilled.

  Service consumption may also include the receiving (acquiring) of goods.
- Service relationship management Joint activities performed by a service provider and a service consumer to ensure continual value co-creation based on agreed and available service offerings.

### The ITIL story: Axle's service relationships

Henri: *Axle has service relationships with many service providers and consumers, both internal and external. Some services provided to Axle create new resources for the business, such as car manufacturers selling cars to us. Other services, such as the work done for us by our internal car cleaning team, and mechanics outside of Axle, change our existing resources by ensuring that our cars are clean and functional.*

*Axle can use these resources in other relationships to provide its own services, in the form of car hire, to consumers, i.e. our customers.*

*These are just a few examples of the service relationships that Axle has. The organization as a whole has many more.*

## 2.5 Value: outcomes, costs, and risks

This section will focus on how an organization in the role of service provider should evaluate what its services should do and how its services should be provided to meet the needs of consumers.

### Key message

Achieving desired outcomes requires resources (and therefore costs) and is often associated with risks. Service providers help their consumers to achieve outcomes, and in doing so, take on some of the associated risks and costs (see the definition of service in section 2.3.1). On the other hand, service relationships can introduce new risks and costs, and in some cases, can negatively affect some of the intended outcomes, while supporting others.

Service relationships are perceived as valuable only when they have more positive effects than negative, as depicted in Figure 2.2. Outcomes, and how they influence and are influenced by the other elements, will now be discussed.

### 2.5.1 Outcomes

Acting as a service provider, an organization produces outputs that help its consumers to achieve certain outcomes.

Definitions

- Output A tangible or intangible deliverable of an activity.
- Outcome A result for a stakeholder enabled by one or more outputs.

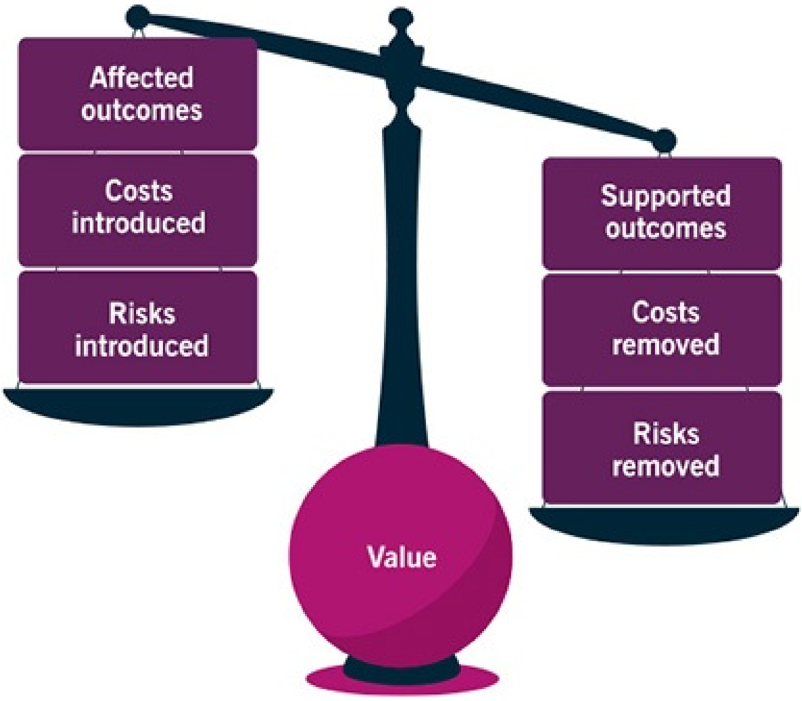



Figure 2.2 Achieving value: outcomes, costs, and risks

It is important to be clear about the difference between outputs and outcomes. For example, one output of a wedding photography service may be an album in which selected photos are artfully arranged. The outcome of the service, however, is the preservation of memories and the ability of the couple and their family and friends to easily recall those memories by looking at the album.

Depending on the relationship between the provider and the consumer, it can be difficult for the provider to fully understand the outcomes that the consumer wants to achieve. In some cases they will work together to define the desired outcomes. For example, business relationship managers (BRMs) in internal IT or HR departments may regularly talk with customers and discuss their needs and expectations. In other cases, the consumers articulate their expectations quite clearly, and the provider expects them to do so, such as when standardized services are offered to a wide consumer group. This is how mobile operators, broadband service providers, and transport companies usually operate. Finally, some service providers predict or even create demand for certain outcomes, forming a target group for their services. This may happen with innovative services addressing needs that consumers were not even aware of before. Examples of this include social networks or smart home solutions.

### The ITIL story: Outputs and outcomes

Henri: *At Axle, our key output is a car that is clean, roadworthy, and well maintained.*

Su: *For our service consumers, outcomes include travel that is convenient and affordable, and meets a range of needs. This includes self-drive holidays, client site visits, and travel to see family and friends.*

## 2.5.2 Costs

**Definition: Cost**

The amount of money spent on a specific activity or resource.

From the service consumer's perspective, there are two types of cost involved in service relationships:

- costs removed from the consumer by the service (a part of the value proposition). This may include costs of staff, technology, and other resources, which the consumer does not need to provide
- costs imposed on the consumer by the service (the costs of service consumption). The total cost of consuming a service includes the price charged by the service provider (if applicable), plus other costs such as staff training, costs of network utilization, procurement, etc. Some consumers describe this as what they have to 'invest' to consume the service.

Both types of cost are considered when the consumer assesses the value which they expect the service to create. To ensure that the correct decisions are made about the service relationship, it is important that both types of cost are fully understood.

From the provider's perspective, a full and correct understanding of the cost of service provision is essential. Providers need to ensure that services are delivered within budget constraints and meet the financial expectations of the organization (see section 5.1.11).

### 2.5.3 Risks

**Definition: Risk**

A possible event that could cause harm or loss, or make it more difficult to achieve objectives. Can also be defined as uncertainty of outcome, and can be used in the context of measuring the probability of positive outcomes as well as negative outcomes.

As with costs, there are two types of risk that are of concern to service consumers:

- risks removed from a consumer by the service (part of the value proposition). These may include failure of the consumer's server hardware or lack of staff availability. In some cases, a service may only reduce a consumer's risks, but the consumer may determine that this reduction is sufficient to support the value proposition
- risks imposed on a consumer by the service (risks of service consumption). An example of this would be a service provider ceasing to trade, or experiencing a security breach.

It is the duty of the provider to manage the detailed level of risk on behalf of the consumer (see section 5.1.10). This should be handled based on a balance of what matters most to the consumer and to the provider. The consumer contributes to the reduction of risk through:

- actively participating in the definition of the requirements of the service and the clarification of its required outcomes
- clearly communicating the critical success factors (CSFs) and constraints that apply to the service
- ensuring the provider has access to the necessary resources of the consumer throughout the service relationship.

## 2.5.4 Utility and warranty

To evaluate whether a service or service offering will facilitate the outcomes desired by the consumers and therefore create value for them, the overall utility and warranty of the service should be assessed.

### Definitions

- Utility The functionality offered by a product or service to meet a particular need. Utility can be summarized as 'what the service does' and can be used to determine whether a service is 'fit for purpose'. To have utility, a service must either support the performance of the consumer or remove constraints from the consumer. Many services do both.
- Warranty Assurance that a product or service will meet agreed requirements. Warranty can be summarized as 'how the service performs' and can be used to determine whether a service is 'fit for use'. Warranty often relates to service levels aligned with the needs of service consumers. This may be based on a formal agreement, or it may be a marketing message or brand image. Warranty typically addresses such areas as the availability of the service, its capacity, levels of security and continuity. A service may be said to provide acceptable assurance, or 'warranty', if all defined and agreed conditions are met.

The assessment of a service must take into consideration the impact of costs and risks on utility and warranty to generate a complete picture of the viability of a service.

Both utility and warranty are essential for a service to facilitate its desired outcomes and therefore help create value. For example, a recreational theme park may offer many exciting rides designed to deliver thrilling experiences for park visitors (utility), but if a significant number of the rides are frequently unavailable due to mechanical difficulties, the park is not fulfilling the warranty (it is not fit for use) and the consumers will not receive their expected value. Likewise, if the rides are always up and running during advertised hours, but they do not have features that provide the levels of excitement expected by visitors, the utility is not fulfilled, even though the warranty is sufficient. Again, consumers would not receive the expected value.

### The ITIL story: A new supplier (Craig's Cleaning)

Su: *Axle's recent customer satisfaction surveys consistently revealed low ratings for car cleanliness. This hampered our customers' travel experience and was a contributing factor for low repeat bookings.*

Henri: *Axle Car Hire made the decision to outsource the cleaning of all vehicles to a service provider. Previously, cleaning of our vehicle fleet was performed by an internal department. The cost and effort to maintain equipment, update rosters, and manage an inflexible workforce were unsustainable.*

*It is important to understand that the risk of outsourcing any task or service is that an organization loses skills and capabilities. However, car cleaning is a service requiring specialized equipment as well as a flexible and motivated workforce. Continual investment in this service is something that is not beneficial for Axle.*

*At face value, outsourcing may appear to cost an organization more than using internal resources. Initially this may be true; however, over time and correctly managed, outsourcing services should be beneficial to both the organization and supplier. The benefit for Axle is that we can concentrate on our core business. After all, we're not a cleaning company.*

Marco: *There are always pros and cons to outsourcing. Let's have a look at the outcomes, costs, and risks that are introduced and removed.*

| Pros | Cons |
|---|---|
| Users will be happy with our cars' cleanliness | Axle will lose an opportunity to offer car cleaning as a service |
| Axle will no longer need to maintain its own cleaning facilities | Axle will need to pay the cleaning company |
| The risk of cars being damaged during cleaning will be removed from Axle. This risk will now be with the supplier and their insurance company | Axle will have a heavy dependency on the external cleaning company, and their staff will have wide access to our premises |

Su: *By partnering with a specialist cleaning organization, Axle can focus its resources on providing a better service for our users. It will also help to optimize our costs, increasing value for the organization.*

Craig is the owner of Craig's Cleaning. Craig is methodical, reliable, and well respected by his staff. With his team, Craig is keen to contribute to the Axle vision of offering a high-standard travel experience.

Craig: *Axle Car Hire decided to outsource its car cleaning service, and Craig's Cleaning was chosen to take this on. My organization is now responsible for the cleanliness of the entire Axle vehicle fleet.*

Henri: *The service Craig's Cleaning is providing is only one component of the Axle customer experience. Clean cars are one output of our overall service, and they contribute directly to the customers' travel experience. This helps Axle's clients to achieve their outcomes.*

Su: *Craig's Cleaning is doing a great job! The cars have never been cleaner, and our customer satisfaction ratings for car cleanliness are steadily on the increase.*

Axle and Craig's Cleaning have worked on a cleaning schedule together, with focus on car cleaning turnaround times during peak hours. Axle is responsible for providing Craig and his team with timely notice of any changes that can impact this schedule. For example, Axle may need to expand its cleaning requirements in the light of new service offerings, such as the one Marco is developing.

Marco: *Axle has a goal to become a greener company and help the environment. We would like Craig's Cleaning to support us in this goal and aim for the same sustainable growth as us.*

## 2.6 Summary

This chapter has covered the key concepts in service management, in particular the nature of value and value co-creation, organizations, products, and services. It has explored the often complex relationships between service providers and consumers, and the various stakeholders involved. The chapter has also covered the key components of consumer value: benefits, costs, and risks, and how important it is to understand the needs of the customer when designing and delivering services. These concepts will be built upon over the next few chapters, and guidance provided on applying them in practical and flexible ways.